

NATIONAL DAIRY MARKET AT A GLANCE

CHICAGO MERCANTILE EXCHANGE (CME) CASH MARKETS (9/23)
BUTTER: Grade AA closed at \$1.7025. The weekly average for Grade AA is \$1.7258 (+.0108).

CHEESE: Barrels closed at \$1.4875 and blocks at \$1.5950. The weekly average for barrels is \$1.5105 (+.0030) and blocks, \$1.5950 (+.0230).

BUTTER: The CME cash butter market has now held above \$1.70 for six consecutive sessions, the longest stretch above that figure since last December. The market tone is mixed. The recent *Cold Storage* report still pegs August 31 butter stocks below July 31 and a year ago. Cream supplies are fairly well balanced but some excess volumes have been noted. Overall, churns are receiving steady volumes of cream. Some Gulf Coast retail stores and restaurants are beginning to reopen, but Rita's expected landfall this weekend is slowing sales and consumption along the Texas Gulf Coast. Demand for both packaged and bulk butter is light to moderate. Quota imports of butter for the first eight months of the year total 10.8 million pounds, 9% less than last year. High-Tier imports of butter (above quota and with a penalty) total 435,700 pounds, 51.1% less than 2004.

CHEESE: The cheese market is weak on barrels and steady on blocks. Current commercial interest continues to center on natural varieties. Buyers trying to prepare for fall cheese promotional activities are finding limited uncommitted supplies. Plant milk supplies are committed to filling current orders. Commercial process interest is slowing seasonally. Barrels are more available than a few weeks ago. Aged cheddar interest is picking up slowly. Current production is steady to lower. Cheese yields are improving. However, with bottlers receiving resin for bottles on allocation from suppliers because of Katrina-related production problems, more milk may end up in manufacturing channels.

FLUID MILK: While states affected by Hurricane Katrina continue to make progress in getting dairy farms back to normal, there is another storm that is expected to hit Texas later this week. Where one area is beginning to see increases in fluid milk orders, the other is seeing declines as people evacuate. Texas milk is backing up to areas that won't be affected by Hurricane Rita. This is creating additional processing in other plants in the Southwest and Midwest. There are concerns over the availability and pricing of resin material used in milk jugs and other containers. These were limited after Katrina damaged a plant that makes the resins. Milk supplies are adequate across the West. California and Arizona production is trending higher on a weekly basis and remains ahead of last year. New Mexico is fluctuating but mainly steady. The Northwest is mixed with some areas declining. Growth is noted in Idaho and Utah. Upper Midwest production is moving lower seasonally, but increases are noted in fat and protein levels.

DRY PRODUCTS: Energy surcharges and fuel surcharges are appearing on more bills as these related costs are passed on to customers. Many producers were reluctant to pass along the costs, but can no longer absorb the escalating natural gas and fuel charges. Some energy surcharges are expected to be around 2 cents per pound for NDM in the fourth quarter. Current NDM prices are mainly steady with buyer interest fair to good. There are resale loads on the market from cheese makers who have extra stocks of NDM and ample milk supplies. Dry buttermilk market prices are unchanged and untested in all regions. Demand is light with seasonal buyers beginning to make inquiries. Prices are mostly steady to fractionally higher for dry whey. Shipping concerns are expressed in the Midwest due to shortages of trucks. Contacts are waiting for news on the amount of whey to be exported under a recent tender. Whey production has been steady. Whey protein concentrate markets and prices are weaker. Demand is light as buyers are reluctant to reenter the market with prices declining. Supplies of 34% and 80% protein powder are being offered and some feed plants have bought government sellback NDM. Pricing for lactose is holding steady, but levels are expected to increase as higher prices are being negotiated for fourth quarter

contracts. Demand is good and not fully filled for current spot needs.

CCC: During the week of September 19-23, there was no dairy price support activity. On September 21, KCCO announced the sale of 4,792,840 pounds of NDM for unrestricted use at \$.6500-\$.9200. Additionally, 256,698 pounds of denatured NDM for restricted use was sold at \$.6900-\$.7800. On September 22, KCCO announced an offer for sale of 5,178,902 pounds of NDM for unrestricted use with bids due 9/28.

FEDERAL MILK ORDER ADVANCE PRICES HIGHLIGHTS (DAIRY PROGRAMS): Under the Federal milk order pricing system, the base price for Class I milk for October 2005 is \$14.27, up 57 cents from September. This price is derived from the advanced Class III skim milk pricing factor of \$7.96 and the advanced butterfat pricing factor of \$1.8818 per pound. Class I differentials specific to each county are added to the base price to determine the Class I price. The Class II skim milk price for October is \$8.12 and the Class II nonfat solids price is \$0.9022 per pound. The following are the two-week product price averages: butter \$1.6832, nonfat dry milk \$0.9726, cheese \$1.4965, and dry whey \$0.2904.

AUGUST COLD STORAGE (NASS): On August 31, U.S. cold storage holdings of butter totaled 150.3 million pounds, 14.9% less than a month ago and 6.7% less than last year. Natural American cheese holdings totaled 565.2 million pounds, 4.9% less than a month ago, and 0.6% lower than 2004.

AUGUST MILK PRODUCTION (NASS): Milk production in the 23 major States during August totaled 13.6 billion pounds, up 4.6% from August 2004. July revised production, at 13.7 billion pounds, was up 4.2% from July 2004. The July revision represented a decrease of 6 million pounds from last month's preliminary production estimate. Production per cow averaged 1,665 pounds for August, 64 pounds (4.0%) above August 2004. The number of cows on farms was 8.15 million head, 52,000 head (0.6%) more than August 2004, and 9,000 head more than July 2005.

AUGUST FEDERAL MILK ORDER PRICE AND POOL SUMMARY (AMS): During August about 10.0 billion pounds of milk were received from producers. This volume of milk is 3.7% higher than the August 2004 volume. (Taking into account the volume of milk not pooled due to intraorder disadvantageous price relationships, the year-to-year change is +1.2%.) About 3.8 billion pounds of producer milk were used in Class I products, 2.6% higher than the previous year. Calendar composition likely had a positive impact on milk used in Class I in 2005 as compared to 2004. The all-market average Class utilizations were: Class I = 38%, Class II = 14%, Class III = 38%, and Class IV = 10%. The weighted average statistical uniform price was \$15.16, \$0.10 lower than last month, and \$0.17 higher than last year.

THE DAIRY OUTLOOK (ERS): Expansion in milk output is now well established, and only modest deceleration is expected in 2006. This year, robust domestic and foreign demand are expected to absorb the extra supplies with only about a \$1 per cwt decline in farm milk prices from the 2004 record. Price declines are expected to be larger in 2006, as demand growth may not be able to handle the second straight large increase in milk output. Record 2004 returns, only slightly lower 2005 returns, and the resumption of near-normal availability of bovine somatotropin (BST) were the prime boosters of milk output. These forces easily overcame tight heifer supplies, forage problems, and hot summer weather in many key areas. A projected expansion of almost 4% in second-half output would bring the increase for all of 2005 over 3%, the largest rise since 1999 and possibly the largest in two decades. Milk cow numbers are projected to average fractionally higher, while milk per cow increases more than 3% on a daily average basis. For the first time since the start of the dairy price support program in 1949, the current marketing year will end with no surplus of any product.

****SPECIALS THIS ISSUE****

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**CHICAGO MERCANTILE EXCHANGE
 CASH TRADING**

PRODUCT	MONDAY SEPTEMBER 19	TUESDAY SEPTEMBER 20	WEDNESDAY SEPTEMBER 21	THURSDAY SEPTEMBER 22	FRIDAY SEPTEMBER 23	WEEKLY CHANGE*	WEEKLY AVERAGE#
CHEESE BARRELS	\$1.5350 (-.0225)	\$1.5350 (N.C.)	\$1.5025 (-.0325)	\$1.4925 (-.0100)	\$1.4875 (-.0050)	(-.0700)	\$1.5105 (+.0030)
40# BLOCKS	\$1.5950 (N.C.)	\$1.5950 (N.C.)	\$1.5950 (N.C.)	\$1.5950 (N.C.)	\$1.5950 (N.C.)	(N.C.)	\$1.5950 (+.0230)
BUTTER GRADE AA	\$1.7400 (+.0150)	----	\$1.7350 (-.0050)	----	\$1.7025 (-.0325)	(-.0225)	\$1.7258 (+.0108)

CHEESE: carload = 40,000-44,000 lbs., BUTTER: carlot = 40,000-43,000 lbs. *Sum of daily changes. # Weekly averages are simple averages of the daily closing prices for the calendar week. Computed by Dairy Market News for informational purposes. This data is available on the Internet at WWW.AMS.USDA.GOV/MARKETNEWS.HTM **NOTE: CME NDM on Page 2.**

CHICAGO MERCANTILE EXCHANGE

MONDAY, SEPTEMBER 19, 2005

CHEESE — SALES: 8 CARS BARRELS: 2 @ \$1.5525, 2 @ \$1.5375, 1 @ \$1.5450, 1 @ \$1.5400, 2 @ \$1.5350; 3 CARS 40# BLOCKS @ \$1.5950; BIDS UNFILLED: NONE; OFFERS UNCOVERED: 7 CARS BARRELS: 5 @ \$1.5525, 1 @ \$1.5550, 1 @ \$1.5575

BUTTER — SALES: 9 CARS GRADE AA: 1 @ \$1.7200, 1 @ \$1.7250, 1 @ \$1.7275, 2 @ \$1.7300, 1 @ \$1.7325, 1 @ \$1.7350, 1 @ \$1.7375, 1 @ \$1.7400; BIDS UNFILLED: 6 CARS GRADE AA: 1 @ \$1.7200, 1 @ \$1.7100, 2 @ \$1.7000, 2 @ \$1.6950; OFFERS UNCOVERED: 1 CAR GRADE AA @ \$1.7500

TUESDAY, SEPTEMBER 20, 2005

CHEESE — SALES: 1 CAR BARRELS @ \$1.5350; 1 CAR 40# BLOCKS @ \$1.5950; BIDS UNFILLED: NONE; OFFERS UNCOVERED: NONE

WEDNESDAY, SEPTEMBER 21, 2005

CHEESE — SALES: 2 CARS BARRELS @ \$1.5350; 1 CAR 40# BLOCKS @ \$1.5950; BIDS UNFILLED: NONE; OFFERS UNCOVERED: 3 CARS BARRELS: 1 @ \$1.5025, 1 @ \$1.5150, 1 @ \$1.5300

BUTTER — SALES: 3 CARS GRADE AA: 1 @ \$1.7300, 1 @ \$1.7325, 1 @ \$1.7350; BIDS UNFILLED: 2 CARS GRADE AA @ \$1.6900; OFFERS UNCOVERED: 4 CARS GRADE AA: 1 @ \$1.7375, 1 @ \$1.7400, 1 @ \$1.7450, 1 @ \$1.7500

THURSDAY, SEPTEMBER 22, 2005

CHEESE — SALES: 2 CARS BARRELS @ \$1.5025; 1 CAR 40# BLOCKS @ \$1.5950; BIDS UNFILLED: NONE; OFFERS UNCOVERED: 2 CARS BARRELS: 1 @ \$1.4925, 1 @ \$1.5025

FRIDAY, SEPTEMBER 23, 2005

CHEESE — SALES: 3 CARS BARRELS @ \$1.4875; BIDS UNFILLED: NONE; OFFERS UNCOVERED: 2 CARS BARRELS @ \$1.4925

BUTTER — SALES: 14 CARS GRADE AA: 1 @ \$1.6900, 4 @ \$1.6800, 2 @ \$1.6900, 2 @ \$1.6975, 2 @ \$1.7000, 3 @ \$1.7025; BIDS UNFILLED: 4 CARS GRADE AA: 2 @ \$1.6800, 2 @ \$1.6500; OFFERS UNCOVERED: 9 CARS GRADE AA: 2 @ \$1.7025, 1 @ \$1.7050, 1 @ \$1.7100, 1 @ \$1.7200, 1 @ \$1.7300, 3 @ \$1.7350

CME CASH NONFAT DRY MILK: Extra Grade closed the week at \$0.9625 and Grade A at \$0.9825. (The last price change occurred March 30.) The weekly average for Extra Grade is \$0.9625 (N.C.) and Grade A is \$0.9825 (N.C.).

BUTTER MARKETS**NORTHEAST**

The butter market is firming. The cash butter price at the CME (through 9/19) has "broken through" and held above \$1.70 for the past four sessions. This is the longest sustained period that butter has been above \$1.70 this year and the Monday (9/19) close at \$1.74 is the highest price since it fell below \$2.00 on December 10, 2004. Churning activity is moderate. Late last week, reports indicated that cream orders for early this week were slower than anticipated, which may push more cream into butter production. Butter stocks are adequate to meet most current needs. Food service orders are mostly steady and retail sales, unless featured, are seldom better than fair. Sales of bulk butter f.o.b. East, are reported in a range from flat market to 3.0 cents over the CME price/average.

CENTRAL

With September 21 being the last day to trade September futures and a lot of open interest still to be settled, the cash butter market at the CME bore little or no impact from the situation in the futures market. (Some contacts thought that the cash market would be very active.) The CME cash butter price on September 21 settled at \$1.7350, the fifth consecutive session above \$1.70. Cream supplies are fairly well balanced, but demand is somewhat lackluster and butter makers are receiving moderate amounts of cream. Butter stocks in CME approved warehouses are nearly the same as last year. Contacts are awaiting the 9/21 release of the Cold Storage report to make further assessments. Butter demand is fair. Retail and food service orders are mostly unchanged. However, as butter prices advance, some buyers are looking to acquire stocks before additional, possible increases. During the first eight months of 2005,

butter imports (subject to licensing) totaled 4.917 million Kg, 9.0% less than the same period last year. For the same period, imports of high-tier butter totaled 197,694 Kg, 97.5% less than a year ago. Bulk butter for spot sale is being reported in the flat – 2 cents per pound over various pricing basis.

WEST

CME cash butter prices have broken through the \$1.70 mark and have been there or higher for the last five trading sessions. Prices currently stand at \$1.7350. Western contacts are not surprised at this price strength. Butter is moving well and stocks are in close balance. Cream offerings in the region are somewhat mixed. One week they are up a bit and the next down. Hurricane Rita is backing some cream up from Texas into the Southwest region. Manufacturers are putting away some current production for fall needs. Some butter is coming back out of the freezer to be micro fixed into prints. *Cold Storage* stocks at the end of August total 150.3 million pounds, down 7% or 10.8 million pounds from last year. August stocks are also sharply lower than 2002 and 2003. Stocks declined by 26.4 million pounds during the month of August. Quota imports of butter for the first eight months of the year total 10.8 million pounds, 9% behind the same period last year. Imports stand at 70% of the annual quota limit. High-Tier imports of butter (above quota and with a penalty) total 435,700 pounds. This compares to 17.3 million pounds for the first eight months last year. The CME weekly butter inventory declined 3.0 million pounds last week to stand at 71.9 million pounds. This level is virtually the same as last year at this time. Last year, stocks fell at a much faster rate in September than this year. Bulk butter prices range from 2 cents under to 4 cents under based on the CME with various time frames and averages.

NASS DAIRY PRODUCT PRICES**U.S. AVERAGES AND TOTAL POUNDS**

WEEKENDING SEPTEMBER 17	CHEESE		NDM	BUTTER	DRY WHEY
	40# BLOCKS	BARRELS 38% MOISTURE			
	1.4732	1.4949	0.9755	1.6797	0.2863
	7,448,668	10,147,484	14,262,869	2,511,072	9,804,572

Further data and revisions may be found on the internet at: <http://jan.mannlib.cornell.edu/reports/nassr/price/dairy>

CHEESE MARKETS

NORTHEAST

Pries are higher and the market tone is firming. As the cash price at the CME rises, buyers are placing increased orders in the hope of beating possible, additional price increases. Overall demand typically improves during the late-summer/early-fall months. Cheese output in the Northeast is increasing slightly. Some additional volumes of surplus milk are available now that school lunch pipelines are full. Cheese inventories are generally adequate for current needs. Demand for cheddar is improving as suppliers/cutters are starting to get into the gift pack preparation time of the year. Retail sales are mostly steady and food service orders are little changed.

WHOLESALE SELLING PRICES: DELIVERED,
DOLLARS PER POUND (1000 - 5000 POUNDS MIXED LOTS)

Cheddar 10# Prints	:	1.6550-2.1750
Cheddar Single Daisies	:	1.6125-2.0875
Cheddar 40# Block	:	1.7125-1.9850
Process 5# Loaf	:	1.7175-1.9550
Process 5# Sliced	:	1.7375-1.9625
Muenster	:	1.7275-1.9275
Grade A Swiss Cuts 10 - 14#	:	2.4500-2.6500

MIDWEST

The cheese market is steady. Current natural business does depend on the segment; whether retail or food service, but still remains generally moderate. With the additional cutting/shredding/slicing equipment added in recent years, overall plant capacity has increased. While most packaging plants have room for additional business, larger volumes are already moving through plants. Buyers need to plan their bulk cheese purchases since plant operators generally need about a 2 week order lead time to make the cheese with limited current cheese offerings otherwise. Aged cheddar interest continues to slowly improve. Process movement is generally fair at best, with commercial interest slowing seasonally in favor of natural. Mozzarella demand remains good with fresh offerings limited. Current cheese output is about steady. Cheese yields are increasing perhaps a bit faster than usual due to the earlier corn silage harvest and dry pasture conditions may just have caused earlier stored feed use.

WISCONSIN WHOLESALE SELLING PRICES: DELIVERED,
DOLLARS PER POUND (1000 - 5000 POUNDS MIXED LOTS)

Process American 5# Loaf	:	1.7275-1.9700
Brick And/Or Muenster 5#	:	1.9200-2.1225
Cheddar 40# Block	:	1.7600-2.2650
Monterey Jack 10#	:	1.9500-2.2650
Blue 5#	:	2.4175-2.6400
Mozzarella 5 - 6# (Low Moisture, Part Skim)	:	1.7500-2.3650
Grade A Swiss Cuts 6 - 9#	:	2.4300-2.9300

WEEKLY COLD STORAGE HOLDINGS-SELECTED STORAGE CENTERS
IN THOUSAND POUNDS - INCLUDING GOVERNMENT STOCKS

BUTTER : CHEESE

09/19/05	40,141	:	140,825
09/01/05	43,195	:	144,100
CHANGE	-3,054	:	-3,275
% CHANGE	-7	:	-2

WEST

Block cheese prices gained 6 1/2 cents last week at the cash CME market. Western contacts agree with the price move considering how tight current offerings of block cheese are. Buyers are attempting to source cheese for fall promotional needs and they are not having much luck. *Cold Storage* stocks of American cheese at the end of August total 565.2 million pounds, down 1% or 3.6 million pounds from last year. During August, stocks declined by 29.3 million pounds. Interest in barrel cheese and processing solids has slowed somewhat in the last two weeks. Some in the market feel that this is normal for this time of year. Mozzarella demand is rated as very good as schools across the country are now back in session and pizza sales activity increases. Swiss sales are good and supplies are in good balance. Swiss stocks at the end of August total 22.3 million pounds, down 17% or 4.5 million pounds from last year. Some cheese plants are acquiring additional outside supplies of milk to extend cheese production. Quota imports of cheese for the first eight months of the year total 179.2 million pounds, up slightly over the same period last year. Imports stand at 60% of the annual total. High-tier imports of cheese (above quota and with a penalty) total 16.2 million pounds, down 53% from the first eight months of 2004.

WHOLESALE SELLING PRICES: DELIVERED, DOLLARS PER POUND
(1000 - 5000 POUNDS MIXED LOTS)

Process 5# Loaf	:	1.6600-1.9175
Cheddar 40# Block	:	1.6900-2.0425
Cheddar 10# Cuts	:	1.8700-2.0900
Monterey Jack 10#	:	1.8800-2.0400
Grade A Swiss Cuts 6 - 9#	:	2.2500-2.7000

FOREIGN

Prices are unchanged on imported; higher on domestic types. The market tone is mostly steady. Supplies are generally adequate to meet the steady to occasionally improved retail demand. Recent reports show that imports of cheese subject to licensing during the first eight months of 2005 total 81.295 million Kg, 0.6% more than the same period last year. However, during that same period, imports of high-tier cheese totaled 7.341 million Kg, 51.1% less than 2004.

WHOLESALE SELLING PRICES: FOB DISTRIBUTORS DOCK
DOLLARS PER POUND (1000 - 5000 POUNDS, MIXED LOTS)

VARIETY	NEW YORK	
	IMPORTED	DOMESTIC
	:	:
Roquefort	: TFEWR	: -0-
Blue	: 2.6400-4.6300	: 1.9675-3.4575*
Gorgonzola	: 3.6900-6.0900	: 2.4800-5.5450*
Parmesan (Italy)	: TFEWR	: 3.3825-3.4900*
Romano (Italy)	: 2.1000-3.1900	: -0-
Provolone (Italy)	: 3.4400-6.0900	: 1.9700-2.2050*
Romano (Cows Milk)	: -0-	: 3.1650-5.3100*
Sardo Romano (Argentina)	: 2.8500-3.2900	: -0-
Reggiano (Argentina)	: 2.6900-3.2900	: -0-
Jarlsberg-(Brand)	: 3.1200-4.1500	: -0-
Swiss Cuts Switzerland	: -0-	: 2.4500-2.6500
Swiss Cuts Finnish	: 2.5900-2.8500	: -0-
Swiss Cuts Austrian	: TFEWR	: -0-
Edam	:	:
2 Pound	: TFEWR	: -0-
4 Pound	: 2.1900-3.5600	: -0-
Gouda, Large	: TFEWR	: -0-
Gouda, Baby (\$/Dozen)	:	:
10 Ounce	: 27.8000-31.7000	: -0-

* = Price change.

FLUID MILK AND CREAM

E A S T

Spot shipments of Grade A milk into or out of Florida and other Southeastern states

	THIS WEEK		LAST WEEK		LAST YEAR	
	IN	OUT	IN	OUT	IN	OUT
FLORIDA	181	0	209	0	213	0
SOUTHEAST STATES	91	0	94	0	74	0

August milk production in the 23 major states totaled 13.57 billion pounds, up 4.6% from August 2004. The following are the August-to-August changes for selected states: Texas +10.9%, Pennsylvania +7.1%, New York +5.5%, Virginia +3.6%, Vermont +2.3%, Florida -1.2%, and Kentucky -5.2%. As noted in last week's report, the CCC was seeking to buy UHT milk under Invitation 001 to Announcement MX1. However, all bids were rejected due to availability (lack of) NDM to be used as payment/exchange. The Gulf Coast states are bracing themselves for Hurricane Rita, but current data seems to point to Texas as the state mostly likely to be hit. However, New Orleans anticipates more rains and renewed flooding. Rita hit the Florida Keys, but had little or no impact on the mainland. At this time, many Katrina-damaged areas are getting back to normal. All milk producers are having their milk picked up, but only about 75% who lost electrical power have had it restored. Contacts are pleased that they are getting to all their producers, but fear that milk quality may suffer due to the wet/muddy conditions and the stress caused to the animal. So far, there have been few reports of farm-milk quality issues. All but one processing plant is back on line. That one operation is in New Orleans and still without power. According to a recent press release, USDA Secretary Mike Johanns estimates that Katrina caused dairy producers to dump about \$3 million worth of milk plus loss of cattle and crops. Contacts in that region feel that the milk-loss estimate may be low. Milk production is mostly steady in most other areas of the Southeast. Industry contacts are working together to solve all the issues in front of them. Some bottlers are working extra shifts to make enough product to supply stores that are reopening in MS, AL, and LA. The supply of resin/pellets to make bottles remains tight and is a growing concern to some operations. In the Northeast, the milk flow is steady to lighter. Class I milk demand is settling into normal school-year patterns and retail sales are mostly steady. Surplus milk supplies are moderate and most manufacturing plant contacts report steady but lighter receipts. The condensed skim market is unchanged and offerings are more than ample for current needs. The fluid cream market is not as firm as it has been. Supply ranges from being in better balance to occasionally long. Demand is just fair and multiples are mostly lower despite an increase at the high end of the range. The CME cash butter average jumped 2.5 cents last week. Ice cream production is easing at some location; a little heavier at others. Cream cheese output is starting to show a little increase as producers prepare for the end-of-year needs. Churning activity is light to moderate.

FLUID CREAM AND CONDENSED SKIM PRICES IN TANKLOT QUANTITIES

SPOT PRICES OF CLASS II CREAM, \$ PER LB BUTTERFAT

F.O.B. PRODUCING PLANTS: NORTHEAST	-	2.2638-2.4696
DELIVERED EQUIVALENT ATLANTA	-	2.2810-2.4696 M 2.2981-2.3324
F.O.B. PRODUCING PLANTS: UPPER MIDWEST	-	2.2295-2.3324

PRICES OF CONDENSED SKIM, \$ PER LB SOLIDS

F.O.B. PRODUCING PLANTS:	
NORTHEAST- CLASS II - INCLUDES MONTHLY FORMULA PRICES	- 1.0000-1.0700
NORTHEAST- CLASS III - SPOT PRICES	- 1.0800-1.1400

M I D W E S T

Class I interest is uneven, though retail promotional activity is stimulating sales in some markets. The availability of resin remains a problem for bottlers with a handler commenting that it may already have reduced Class I use in their area. Film supplies are also tight, an issue on other products, especially as label changes are being made to include trans-fat data. Sharp increases in sugar prices may affect the prices and production of dairy items using supplemental volumes such as chocolate milk and ice cream. Finding a truck/trucker to move product remains a big problem in moving spot loads, with buyers less worried about truck fuel surcharges as much as attempts to pass on new ones for increases in in-plant fuel costs and/or packaging costs. Some milk buyers are loath to receive partial milk loads due to the very high cost of hauling "air". Milk supplies are tight to adequate with midweek normally the tightest time. A few reports indicate that extra milk was being shipped from Texas in preparation for the arrival of Hurricane Rita. Manufacturing milk demand is about steady though buyers are trying to hold the line on premiums, as trucking rates/fuel surcharges alone have been higher on

purchases. Reported net spot manufacturing milk prices were up slightly and range from about \$1.85 - 1.95 over class, fob seller. Cottage cheese and dip production are about average. Cream demand is generally weaker as ice cream production declines seasonally. Cream cheese demand is increasing with churns also receiving good seasonal volumes. Milk receipts are steady to generally lower seasonally. Fat and component levels are edging higher. Due to dry conditions, more farmers have started feeding supplemental stored feed. Good progress is being made on the fall harvest despite high fuel costs.

WISCONSIN LIVESTOCK AUCTIONS (PER CWT.)

	SEP 15 - 21	PREVIOUS YEAR
SLAUGHTER COWS	\$ 49.00- 55.00	\$ 54.00- 58.00
REPLACEMENT HEIFER CALVES	\$400.00-760.00	\$440.00-620.00

SOUTH ST. PAUL TERMINAL AUCTION MARKET (PER CWT.)

	SEP 15 - 21	PREVIOUS YEAR
SLAUGHTER COWS	\$ 48.00- 56.00	\$ 52.00- 60.00

W E S T

Milk Production in the 23 Selected States totaled 13.6 billion pounds in August, up 4.6% from the previous year. Cow numbers increased 52,000 head or 0.6% from August 2004. Cow numbers in these states have increased 78,000 head since February. Production per cow was up sharply, increasing 64 pounds or 4.0%. In the seven Western states in the survey, cow numbers in August ranged from down 2,000 head in Arizona to up 35,000 head in Idaho compared to last year. Production per cow varied from down 1.5% in Oregon to up 7.4% in Colorado. Milk production changes for selected Western states compared to last year are as follows: Arizona +2.9%, California +2.6%, Colorado +9.5%, Idaho +13.4%, New Mexico +6.2%, Oregon -1.0%, and Washington +6.9%. CALIFORNIA milk production is moving slightly higher across most of the state. Fat and protein levels on incoming milk supplies are moving upwards seasonally. This is improving cheese yields and increasing cream supplies. School milk orders have leveled off as the "pipeline" is full and stable. Retail demand is also steady with fall buying patterns established. Sales and promotions occasionally are helping improve sales. The southern producing area was slightly affected by a storm early in the week with little impact expected on milk production. Temperatures and conditions have been favorable for milk cows. Milk is trending upwards in the Central Valley on a week to week basis and output is often noted in the 3-5% range higher than comparable intakes a year ago. Processing plants in the region are busy with some having additional room. Milk production is trending higher across much of ARIZONA. Some recent daytime highs have reached over 100 degrees, but cooler and extended nighttime conditions are favorable. Plants in the state are more active than in recent weeks with additional milk volumes locally and there is milk that is backing out of Texas ahead of Hurricane Rita's arrival. Milk output in NEW MEXICO is fluctuating due to hot, humid and rainy conditions returning. The impact on total milk supplies would be greater if not for additional cows in the state. More milk has to be processed with milk either not moving to or coming into the state from Texas. Cheese plants are willing to take milk if the price is decent. CREAM prices in the West are steady. There have been increases in butter prices countered by declines in multiples and overages. Cream offerings are higher than in recent weeks. Cream cheese production is higher in some locales in advance of fall needs. Sour cream output has moderated at seasonal levels. Ice cream production has slowed. Butter churning is active with the surplus volumes available. CME butter prices increased 1.5 cents over the past week to close at \$1.7350 on September 21. Multiples are slightly lower in the 118 to 130 range and vary depending on class usage and basing point. Fluid bottlers in the PACIFIC NORTHWEST continue to take very good volumes of milk to fill the fluid pipeline. This is limiting the amount of milk for processing in some areas. Also, some reports note a September slide in milk production at the farm level. It is noted, however, that fat and protein tests on farm milk receipts are improving. Discussions are noted about various energy surcharges for various products. They seem to be becoming much more common for more operations. Corn silage harvesting is just beginning on the west side. Quality should be fine, but yields may not be up to expectations. Heifer prices in the region continue to be firm. Fall weather conditions are becoming more common in UTAH and Idaho. Scattered frost is noted at some higher elevations. Many farmers are done with the hay harvest, but some still plan on taking one more cutting. Some of the later cuttings this year are of better quality than earlier ones. A few dairies are considering selling some of their early cutting hay and replacing it with later cutting, better quality hay. Cheese plants report excellent sales activity for current cheese and some plants are acquiring additional supplies of milk to better meet demand schedules. Heifer prices in the region are firm with the top end near \$2300 and the average at two sales in the region ranging from \$1965-2170.

NDM, BUTTERMILK & WHOLE MILK

Prices represent carlot/trucklot quantities for domestic and export sales packaged in 25 kg. or 50 lb. bags, or totes, spray process, dollars per pound.

NONFAT DRY MILK - CENTRAL AND EAST

CENTRAL: Prices are unchanged to lower on a steady market. Due to shortages of fuel and trucks, energy surcharges are expected higher in October. Producers do not suspect that demand will be affected by higher shipping charges as the supplies of NDM are reportedly tight. Traders are speculative of the market as any changes in international demand would likely alter domestic supply availability. In addition, a new resale market is evolving as cheese producers that have accumulated heavy stocks of NDM become resellers to other cheese plants and brokers at prices below the market. Production is steady to somewhat lighter as increased Class I demand reduces milk intakes at some NDM plants. High heat supplies are short of buyer interest with most movement occurring on a contractual basis.

EAST: Prices are steady to lower as last week's NASS average for NDM dipped fractionally. Also, some Eastern producers, wishing to clear projected output, were offering multi-load quantities at slightly discounted prices. Production levels are steady to lighter as surplus milk volumes decline and some work is being done at one plant. The market tone continues to show some weakness. Resistance to higher prices, higher delivery costs, and sufficient inventories are keeping some buyers on the sidelines. There continues to be old, CCC sell-back powder on the market and likely more to come. Some producers are making medium heat powder to fill export contracts. Some Eastern producers report that inventories are light, but anecdotal reports have some plants with more than ample stocks to clear. Demand for medium and high heat NDM is mostly unchanged. There are still reports of NDM being in containers and/or warehouses in and around New Orleans which may be damaged, but volumes and the extent of the damage is not fully known.

CCC SELLBACK: On September 21, KCCO announced the sale of 3,507,817 pounds of NDM in 25 Kg bags at prices ranging \$.6500-.9200 and 1,541,721 pounds of NDM in 2 pound bags (12 per case) at \$.7200. This powder is for both restricted and unrestricted use and the second sale in less than a month.

F.O.B. CENTRAL/EAST: Includes EXTRA GRADE and GRADE A

LOW/MEDIUMHEAT: .9775 - 1.0525 MOSTLY: .9900 - 1.0150

HIGHHEAT: 1.0275 - 1.1000

NONFAT DRY MILK - WEST

Western low/medium heat nonfat dry milk prices continue to move slightly higher as the market tone is steady to firmer. Pricing fluctuations are currently affected more by changes in pricing formulas than by supply and demand factors. Direct spot trades in the region are few. Export interest is fair to good for some producers in the 4th quarter and into 2006. Pricing levels are within the current range. Sales to cheese producers are slow to fair for both NDM and condensed skim. Energy surcharges are being added to current NDM sales by more producers. The surcharges are expected to be higher in future months as natural gas prices move sharply higher. Production is seasonally active to process available milk supplies in the region. Freight costs are also higher with increased fuel costs being passed along. High heat prices are mostly steady to slightly lower. The tone is firm. There is very little high heat available for spot sales. Current production is mostly made to order and often lower than projected. Producers don't seem interested in making additional powder. Buying interest is fair with some seasonal interest slowly developing.

NOTE: For CCC sellback totals, see Central/East comment above.

F.O.B. WEST: Includes EXTRA GRADE and GRADE A

LOW/MEDIUMHEAT: .9400 - .9900 MOSTLY: .9500 - .9825

HIGHHEAT: .9700 - 1.0150

CALIFORNIA MANUFACTURING PLANTS - NDM

WEEK ENDING	PRICE	TOTAL SALES	SALES TO CCC
September 16	\$.9518	6,712,115	0
September 9	\$.9478	7,582,829	0

Prices are weighted averages for Extra Grade and Grade A Nonfat Dry Milk, f.o.b. California manufacturing plants. Prices for both periods were influenced by effects of long-term contract sales. Total sales (pounds) include sales to CCC. Compiled by Dairy Marketing Branch, California Department of Food and Agriculture.

DRY BUTTERMILK - CENTRAL

Prices remain unchanged and nominal on a steady market. Trade activity is very light. Some plants did trade a few loads bordering 6 months of age. Most plants report that supplies are limited with good movement of condensed buttermilk into Class II facilities. As usual, plants expect more buttermilk to be dried after the Thanksgiving holiday with prices trending lower thereafter.

F.O.B. CENTRAL:

.9500 - 1.0450

DRY BUTTERMILK - NORTHEAST AND SOUTHEAST

Prices are unchanged, but the market tone may be showing a little firmness. This week, contacts reported more inquiries from traders. This is an improvement in interest since there have been few new inquiries in the past several weeks, just contract sales. Eastern producers have little on hand and output is light to moderate, paralleling churning activity. However, Class II cream demand is slowing along seasonal patterns, which pushes a little more cream to butter plants. Off grade powder continues to be available at discounted prices.

F.O.B. NORTHEAST:

.9500 - 1.0050

DELVD SOUTHEAST:

.9800 - 1.0600

DRY BUTTERMILK - WEST

Western dry buttermilk prices are unchanged and the market tone is steady. Demand remains limited for both spot and contract sales. Expectations are for seasonal increases in demand from bakery and other accounts. Drying schedules remain active in the region and mirrors active butter making. Stocks are moderate and available for current needs.

F.O.B. WEST:

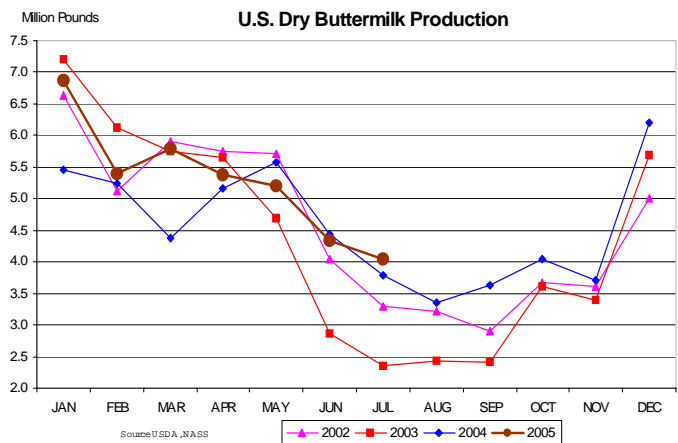
.9150 - .9650 MOSTLY: .9200 - .9350

DRY WHOLE MILK - NATIONAL

Prices are unchanged and nominal. Few spot sales are being reported and those that are, are often resale lots. The market tone is steady. Production levels are light and geared toward filling contracts. Producer inventories are light.

F.O.B. PRODUCING PLANT:

1.3125 - 1.4950



WHEY, CASEIN & EVAPORATED MILK

Prices represent carlot/trucklot quantities for domestic and export sales packaged in 25 kg. or 50 lb. bags, or totes, spray process, dollars per pound.

DRY WHEY – CENTRAL

Prices are unchanged on both Extra Grade and milk replacer quality whey. The market tone is firm. Some movement of whey in the Central region is being hampered by an insufficient supply of trucks. Commencing in October, many plants are adding energy surcharges to their shipments to compensate for the higher prices in fuel. Whey prices are anticipated to remain firm throughout the remainder of the year. Traders report a few contractual offers at flat prices for the fourth quarter. Resale supplies are available at a premium for the fair interest. Milk replacer quality supplies are trading within the range for the good interest.

F.O.B. CENTRAL: .2825 - .3000 MOSTLY: .2825 - .2975
F.O.B. CENTRAL: ANIMAL FEED MILK REPLACER: .2700 - .2900

DRY WHEY - NORTHEAST AND SOUTHEAST

Prices are mostly steady. The Northeastern prices remain nominal as most Northeastern producers have little or no dry whey to offer on the spot market. Buyers and traders comment how tight the supply is and wonder why prices are not increasing. Producers are generally sold out through the end of the year because of contracts and, in instances, some of these contracts are being cut/delayed due to lack of output. Traders have product to offer and premiums are increasing. Buyers are resisting the higher prices and showing little increased buying interest. Cheese output is moderate to slightly heavier along seasonal patterns. Buying interest is not very aggressive. Most spot sales are in the resale. Fuel and energy costs are becoming bigger factors in product movement.

F.O.B. NORTHEAST: EXTRA GRADE AND GRADE A: .2950 - .3150
DELVD SOUTHEAST: .3150 - .3350

DRY WHEY - WEST

Prices for Western whey this week range from steady to fractionally higher. Good sales activity is noted on both the export and domestic sales fronts. A consensus is building that some of the whey for the recent tender to the Far East will be coming from the U.S. at prices within or above the current range. More domestic users are searching for additional quantities of whey as the time approaches for another Western plant to convert from sweet whey production to protein. Whey production levels range from steady to lighter. Inventories range from in balance to tight with some delays noted in delivery schedules.

NONHYGROSCOPIC: .3100 - .3400 MOSTLY: .3150 - .3300

WHEY PROTEIN CONCENTRATE - CENTRAL AND WEST

Prices are unchanged to lower on a weak market. Offerings persist at reduced prices for the light interest. Most buyers are tending to wait and see where the market settles before purchasing additional supplies. Others are well contracted and content in receiving regular loads. Supplies of WPC 80% are available from domestic and foreign sources at prices that are very competitive with the WPC 34% market. Some feed plants also purchased NDM from the recent government sellback as a substitute to the higher priced WPC 34% market. Production of WPC 34% is generally steady with supplies reduced compared to the year prior as many plants have converted to higher protein products. Off grade WPC 34% is available for the good feed interest.

F.O.B. EXTRA GRADE 34% PROTEIN: .8225 - .8675 MOSTLY: .8525 - .8625

LACTOSE - CENTRAL AND WEST

Prices are unchanged on a firm market. Some contracts are finalized at higher prices for the fourth quarter. With prices anticipated to increase, some Asian buyers are eager to finalize deals. However, some producers are opting to wait and see where the market settles before finalizing any negotiations. Buyers submitting to higher prices are comparing this year to trends to 2001 where prices moved higher and then dropped significantly during second quarter in 2002 due to financial distress in the economy and increased production. Energy surcharges are expected to be added onto loads shipped in the fourth quarter. Production is steady and supplies are trending short of buyer interest due in part to the reduced availability of substitutes such as whey and dry permeate.

Including spot sales and up to 3 month contracts. Mesh size 30 - 100.

F.O.B. EDIBLE: .1875 - .2400 MOSTLY: .1900 - .2200

CASEIN - NATIONAL

Prices for both casein series are unchanged. Supplies in the United States are adequate for current needs. Pricing levels for the fourth quarter are being negotiated and some contracts are expected to be lower than during the third quarter. Stocks from Europe are stated to be in better position for future offerings and the production season is slowly developing in Oceania.

SPOT SALES AND UP TO 3 MONTH CONTRACTS. PRICES ARE F.O.B., U.S. WAREHOUSE FOR EDIBLE NONRESTRICTED AND VARY ACCORDING TO MESH SIZE AND QUALITY.

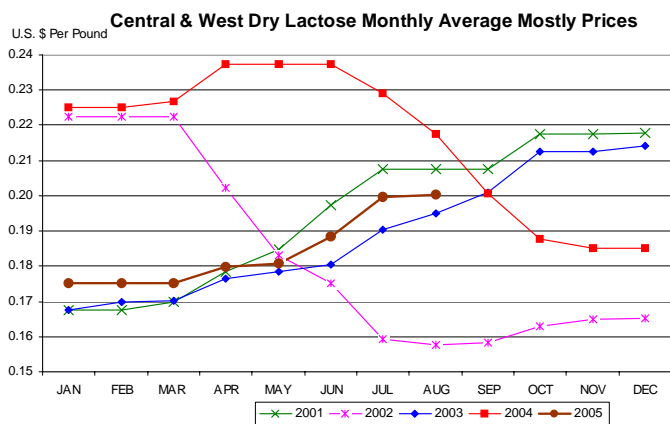
RENNET: 3.2700 - 3.4500
ACID: 3.2700 - 3.4000

EVAPORATED MILK – NATIONAL

Prices and the market tone are unchanged. The market continues to be highly competitive. Production levels are about steady as less surplus milk is available in some parts of the country. Most producers have adequate supplies to cover fall needs. The re-supplying of stores in Katrina's path is improving as more stores reopen and retailers have to restock their warehouses. Hurricane Rita is certainly cause for concern and her possible impact on the retail markets wherever she makes landfall.

DOLLARS PER 48 - 12 FLUID OUNCE CANS PER CASE DELIVERED MAJOR U.S. CITIES \$19.50 - 30.00

Excluding promotional and other sales allowances. Included new price announcements.



MONTHLY COLD STORAGE REPORT – TOTAL U.S. STOCKS

NOTE: Data for this report is collected from public, private and semiprivate warehouses, apple houses, and meat packing plants where food products are generally stored for 30 days or more. Commodities in space owned or leased and operated by the armed services are not reported. Food stocks held under bond are included in the storage data.

All stocks in thousand pounds except where otherwise indicated

U.S. HOLDINGS OF DAIRY PRODUCTS

COMMODITY	JULY 31, 2003	JULY 31, 2004	REVISED JULY 31, 2005	AUG 31, 2003	AUG 31, 2004	AUG 31, 2005
Butter	283,879	193,520	176,670	253,913	161,025	150,259
Cheese, Natural American	552,455	615,904	594,508	546,627	568,783	565,163
Cheese, Swiss	28,896	28,012	22,447	22,172	26,759	22,255
Cheese, Other Natural	227,612	226,086	211,457	225,416	215,979	209,890
Total Cheese	809,085	874,853	828,412	794,215	819,037	797,308

U.S. GOVERNMENT OWNED COLD STORAGE HOLDINGS

Butter	11,183	136	113	9,567	35	55
Natural American Cheese	6,141	7,077	546	8,807	7,076	716

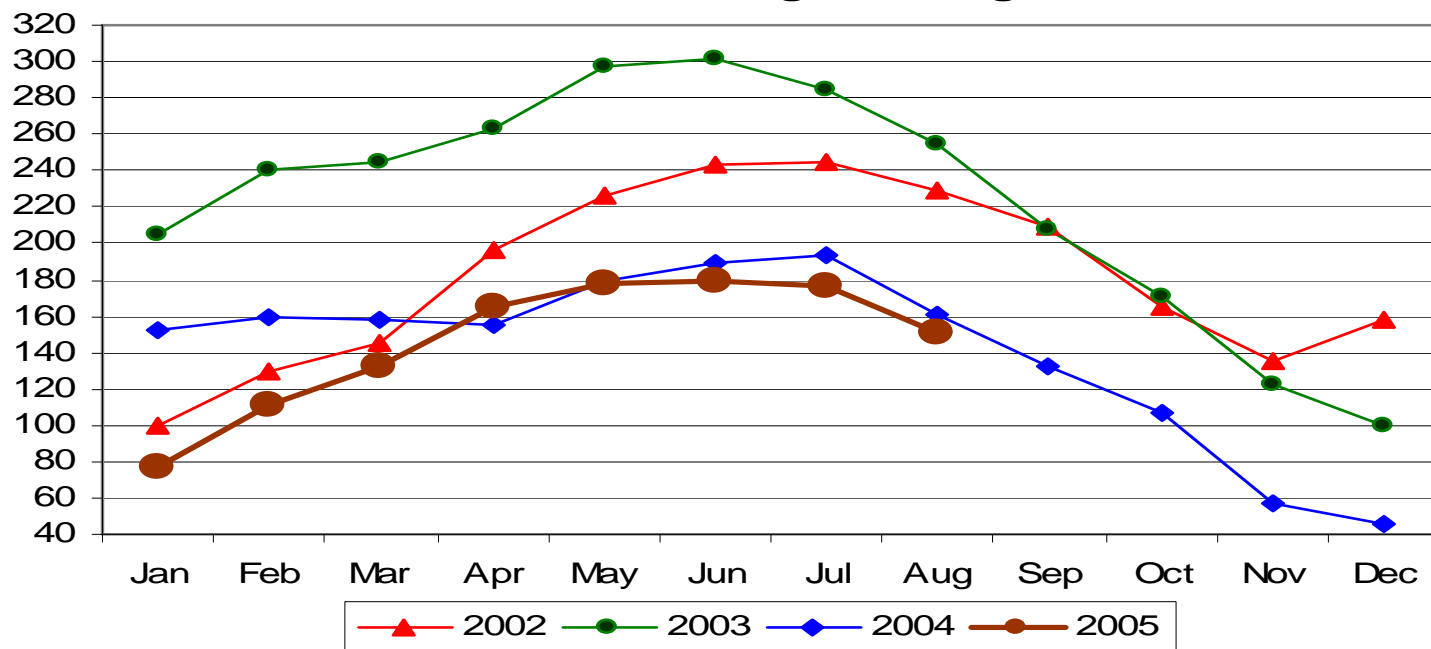
AUGUST STORAGE HOLDINGS BY REGION

REGION	Natural American Cheese			Butter *			Other Natural Cheese		
	2003	2004	2005	2003	2004	2005	2003	2004	2005
New England	22,064	25,121	24,239	---	---	---	234	318	54
Middle Atlantic	53,684	61,148	52,716	---	---	---	17,607	19,801	13,462
East North Central	217,648	222,462	230,691	---	---	---	130,396	120,901	123,256
West North Central	131,169	126,442	121,148	---	---	---	57,392	55,228	54,987
South Atlantic	140	4,198	7,206	---	---	---	1,938	108	136
East South Central	213	45	124	---	---	---	1,903	2,448	2,556
West South Central	4,431	4,563	6,412	---	---	---	147	158	46
Mountain	20,515	30,326	37,961	---	---	---	2,910	5,267	2,248
Pacific	96,763	94,478	84,666	---	---	---	12,889	11,750	13,145
TOTAL	546,627	568,783	565,163	253,913	161,025	150,259	225,416	215,979	209,890

*Regional breakdowns are not reported to avoid possible disclosure of individual operations.

Million Pounds

Butter Cold Storage Holdings



COMMERCIAL AND GOVERNMENT STORAGE HOLDINGS, JANUARY 2004 TO DATE

Month	Butter						Natural American Cheese						Nonfat Dry Milk					
	Total <u>1/</u>		Commercial		Government		Total <u>1/</u>		Commercial		Government		Total <u>1/ 2/</u>		Commercial		Government <u>2/</u>	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	Million Pounds						Million Pounds						Million Pounds					
January	77	152	77	151	<u>3/</u>	1	479	518	475	508	4	10	440	945	83	109	357	836
February	111	159	111	158	<u>3/</u>	1	497	533	494	523	3	10	374	896	79	95	296	800
March	132	158	132	158	<u>3/</u>	1	518	521	517	511	2	10	321	841	84	80	236	761
April	165	156	164	155	<u>3/</u>	<u>3/</u>	549	526	547	517	2	10	276	826	108	104	168	723
May	178	179	178	178	<u>3/</u>	<u>3/</u>	578	559	577	549	1	10	259	814	113	123	147	691
June	180	189	179	189	<u>3/</u>	<u>3/</u>	581	591	581	582	3/	9	NA	774	116	146	NA	628
July	177	194	177	193	<u>3/</u>	<u>3/</u>	595	616	594	609	1	7	234	755	118	161	116	594
August	150	161	150	161	<u>3/</u>	<u>3/</u>	565	569	564	562	1	7		716		149		567
September		133		133	<u>3/</u>			554		547		6		650		127		523
October		107		107	<u>3/</u>			528		521		7		602		116		486
November		57		57	<u>3/</u>			481		476		5		552		94		458
December		45		45	<u>3/</u>			481		476		5		512		99		413

NA = Not available.

1/ Total may not add due to rounding. 2/ Includes instant nonfat dry milk. 3/ Less than 500,000 lbs.COMMERCIALLY OWNED COLD STORAGE HOLDINGS FOR THE UNITED STATES 1/

Commodity	Jul 31, 2003	Jul 31, 2004	Jul 31, 2005	Aug 31, 2003	Aug 31, 2004	Aug 31, 2005
	Thousand Pounds					
Butter	272,696	193,384	176,557	244,346	160,990	150,204
Natural American Cheese	546,314	608,827	593,962	537,820	561,707	564,447

1/ Total holdings minus Government owned holdings. For more information, see page 7 of this report.

SOURCE: "Cold Storage," Co St 1 (9-05) and "Dairy Products," Da 2-6 (9-05), Agricultural Statistics Board, National Agricultural Statistics Service; and "Summary of Processed Commodities in Store," Farm Service Agency.

AUGUST MILK PRODUCTION

Milk production in the 23 major States during August totaled 13.6 billion pounds, up 4.6 percent from August 2004. July revised production, at 13.7 billion pounds, was up 4.2 percent from July 2004. The July revision represented a decrease of 6 million pounds from last month's preliminary production estimate.

Production per cow in the 23 major States averaged 1,665 pounds for August, 64 pounds above August 2004.

The number of cows on farms in the 23 major States was 8.15 million head, 52,000 head more than August 2004, and 9,000 head more than July 2005.

AUGUST 2005 MILK COWS AND MILK PRODUCTION, BY STATES

STATE	MILK COWS 1/		MILK PER COW 2/		MILK PRODUCTION 2/		
	2004	2005	2004	2005	2004	2005	% CHANGE FROM 2004
	THOUSANDS		POUNDS		MILLION POUNDS		PERCENT
AZ	163	161	1,710	1,780	279	287	2.9
CA	1,733	1,763	1,775	1,790	3,076	3,156	2.6
CO	103	105	1,835	1,970	189	207	9.5
FL	138	135	1,225	1,240	169	167	-1.2
ID	431	466	1,850	1,940	797	904	13.4
IL	107	104	1,490	1,515	159	158	-0.6
IN	149	156	1,620	1,660	241	259	7.5
IA	192	186	1,640	1,680	315	312	-1.0
KS	115	112	1,600	1,690	184	189	2.7
KY	110	106	1,045	1,030	115	109	-5.2
MI	303	313	1,755	1,815	532	568	6.8
MN	465	455	1,440	1,505	670	685	2.2
MO	121	115	1,210	1,170	146	135	-7.5
NM	327	331	1,740	1,825	569	604	6.2
NY	654	647	1,500	1,600	981	1,035	5.5
OH	266	270	1,430	1,460	380	394	3.7
OR	120	121	1,615	1,590	194	192	-1.0
PA	560	562	1,475	1,575	826	885	7.1
TX	320	320	1,465	1,625	469	520	10.9
VT	145	143	1,495	1,550	217	222	2.3
VA	104	105	1,335	1,370	139	144	3.6
WA	236	242	1,910	1,990	451	482	6.9
WI	1,240	1,236	1,510	1,585	1,872	1,959	4.6
23 STATE TOTAL	8,102	8,154	1,601	1,665	12,970	13,573	4.6

1/ Includes dry cows. Excludes heifers not yet fresh.

2/ Excludes milk sucked by calves.

SOURCE: "Milk Production," Da 1-1 (9-05), Agricultural Statistics Board, National Agricultural Statistics Service, U.S. Department of Agriculture.

FEDERAL MILK ORDER PRICE AND POOL SUMMARY, AUGUST

HIGHLIGHTS -- Handler reports of receipts and utilization under the Federal milk order system for August have been filed and tabulated. Combined totals for the 10 consolidated orders are being released. During August about 10.0 billion pounds of milk were received from producers. This volume of milk is 3.7 percent higher than the August 2004 volume. (Taking into account the volume of milk not pooled due to intraorder disadvantageous price relationships, the year-to-year change is +1.2 percent.) About 3.8 billion pounds of producer milk were used in Class I products, 2.6 percent higher than the previous year. Calendar composition likely had a positive impact on milk used in Class I in 2005 as compared to 2004. The all-market average Class utilization percentages were; Class I = 38%, Class II = 14%, Class III = 38%, and Class IV = 10%. The weighted average statistical uniform price was \$15.16 per cwt., \$0.10 lower than last month, and \$0.17 higher than last year.

PRICE AND POOL STATISTICS FOR FEDERAL MILK ORDER MARKETING AREAS FOR THE MONTH OF AUGUST 2005										
FEDERAL MILK ORDER MARKETING AREA <u>1/</u>	ORDER NUMBER	RECEIPTS OF PRODUCER MILK		UTILIZATION OF PRODUCER MILK IN CLASS I			UTILIZATION OF PRODUCER MILK IN OTHER CLASSES			UNIFORM PRICE <u>2/</u>
		TOTAL	CHANGE FROM PREV. YEAR	TOTAL	CHANGE FROM PREV. YEAR	PERCENT	CLASS II	CLASS III	CLASS IV	
		MIL. LBS.	PERCENT	MIL. LBS.	PERCENT		PERCENT			\$ PER CWT.
Northeast (Boston)	001	2,037.8	7.8	886.7	2.8	44	21	26	9	15.84
Appalachian (Charlotte)	005	490.9	-8.6	350.6	-4.3	72	15	5	8	16.65
Southeast (Atlanta)	007	608.9	2.6	406.0	1.2	67	11	11	11	16.44
Florida (Tampa)	006	249.2	13.4	218.4	15.1	88	8	<u>3/</u>	4	17.87
Mideast (Cleveland)	033	1,417.1	-8.3	556.3	4.2	39	19	37	5	14.94
Upper Midwest (Chicago)	030	2,173.3	8.6	381.4	5.7	17	6	74	3	14.15
Central (Kansas City)	032	1,317.8	7.1	376.9	2.6	29	12	49	10	14.49
Southwest (Dallas)	126	820.9	5.5	360.6	1.6	44	14	18	24	15.70
Arizona-Las Vegas (Phoenix)	131	220.8	-0.6	82.8	0.6	37	13	46	4	14.86
Pacific Northwest (Seattle)	124	658.4	6.2	171.2	-2.9	26	7	27	40	14.38
ALL MARKET AVERAGE OR TOTAL	<u>4/</u>	9,995.2	3.7	3,790.8	2.6	38	14	38	10	15.16

1/ Names in parentheses are the major city in the principal pricing point of the market.

2/ Statistical uniform price for component pricing orders (Class III price plus producer price differential). For other orders, uniform skim milk price times 0.965 plus uniform butterfat price times 3.5.

3/ Less than 0.5 percent.

4/ In August 2004, due to a disadvantageous relationship between intraorder class prices and the location adjusted statistical uniform (blend) price in Order Nos. 030, 126, and 124, handlers elected not to pool 240 million pounds of milk that normally would have been associated with these markets. After adjusting for these not-pooled volumes, the year-to-year percent change is +1.2.

THE DAIRY OUTLOOK

Good Dairy Demand Soaks Up Products Surge

Summary - Expansion in milk output is now well established, and only modest deceleration is expected in 2006. This year, robust domestic and foreign demand are expected to absorb the extra supplies with only about a \$1 per cwt decline in farm milk prices from the 2004 record. Price declines are expected to be larger in 2006, as demand growth may not be able to handle the second straight large increase in milk output. This summer saw strong expansion in milk production solidly established. Milk cow numbers continued to creep higher, while growth in milk per cow was near the long-run trend for the first time in over 3 years. Record 2004 returns, only slightly lower 2005 returns, and the resumption of near-normal availability of bovine somatotropin (BST) were the prime boosters of milk output. These forces easily overcame tight heifer supplies, forage problems, and hot summer weather in many key areas. Demand for dairy heifers continues to outstrip supplies. The mid-year inventory data showed about 1 percent more replacement heifers than a year earlier. Even so, dairy replacements were a record \$1,830 per head in July, up more than \$100 from a year earlier. The difference between replacement and slaughter values was only slightly lower than the 2002 records. Replacement heifer prices are likely to stay very high as long as milk prices remain robust. Heifer supplies probably will expand a little because of the recent higher prices, but significant expansion of heifer supplies from current levels is difficult. A few more animals would be available for growing operations when the number of farm exits picks up. But, prospective milk prices indicate that this will not be until well into the future. Hay supplies are somewhat tight, and summer prices have been relatively quite strong. Production in the Northwest has been hurt by a lack of water for irrigation, with western supplies of dairy-quality hay further affected by strong export demand. Many northern dairy areas had a light second cutting, although the quality is reported to be good. This was the reverse of first-cut conditions when yield was good but quality spotty. Forage supplies and prices might give some expanding producers slight pause but are not likely to have a substantial effect. The incentives for expansion are too robust for hay conditions to play a significant role. Also, the reportedly heavy early buying may result in relatively modest seasonal rises in hay prices. The more important impact of hay conditions might be on milk per cow. Growth in milk per cow may vary during the feeding season as farmers shift from good to poorer forage. Depending on the size and quality of late cuttings, there may also be a risk of producers running out of even mediocre hay by late spring 2006.

Milk per Cow Bounces Back - Hot summer weather over much of the country had some depressing impact on milk per cow, but more available BST, strong incentives for heavy concentrate feeding, and a return to more normal culling easily overrode the weather effects. Compared with the 5-year moving average, expansion in milk per cow was at an annual rate of more than 2 percent in June and July, in line with the long-run trend. Such rates have been fairly rare in recent years. Growth in milk production is expected to be brisk during the rest of 2005. The effects of strong returns probably will push milk cow numbers slowly higher, although the cooperative cow buyout may provide some interruption. Brisk gains in milk per cow are likely, as relative prices of milk and concentrate feeds are projected to be conducive to heavy concentrate feeding. A projected expansion of almost 4 percent in second-half output would bring the increase for all of 2005 over 3 percent, the largest rise since 1999 and possibly the largest in two decades. Milk cow numbers are projected to average fractionally higher, while milk per cow increases more than 3 percent on a daily average basis. Somewhat lower returns in 2006 are expected to slow the expansion a little, but relatively brisk growth is projected to persist throughout the year. Cow numbers are projected to post another fractional increase, as expanding producers begin to be partially offset by a few more exiting farmers. The large effect of BST's return on the year-to-year increases will dissipate after early 2006. For the year, milk per cow is expected to gain about 2 percent.

Cheese Output Grows, Commercial Stocks Modest - Most of the growth in late spring-early summer milk production went into cheese. May-July cheese production rose 5 percent from a year earlier, with American cheese and Italian types posting large increases. Cheese returned significantly higher values than did butter-powder production during most of this period. Surging ice cream production during May-July slashed the earlier jumps in butter production. Butter output was 6 percent higher than a year earlier, only about a third of

the March-April increase. Reportedly, ice cream makers had relatively small stocks of milkfat and ice cream going into the warm season, forcing them to compete cream away from the churns. Production of nonfat dry milk was down considerably during May-July, but this decrease was quite misleading. Manufacturers were using considerable amounts of skim milk to produce export products that did not meet the U.S. standard of identity for nonfat dry milk, even though some did meet the international standard for skim milk powder. Cheese and butter-powder plants are expected to share the autumn increase in milk output. All three products are projected to have fairly strong demand, keeping milk values fairly close between uses. Commercial dairy stocks have stayed quite moderate despite the heavy production. On August 1, industry holdings of butter, American cheese, other cheese, and nonfat dry milk were modestly below a year earlier. Although the decline from 2004 was not dramatic, on either a milkfat or skim solids basis, stocks were far below those of 2003. The August 1 stocks probably were comfortable, even though they would be considered tight under most market conditions. The expected increases in milk production will provide some buffer against sales variation, lessening the need for inventories. Butter might be the exception to the general stocks pattern. Inventories probably will be adequate but might fall short if holiday demand for butter and other milkfat products is stronger than expected.

Demand Stays Robust - Demand for dairy products was strong in late spring-early summer, limiting the price impacts of the milk production surge. Commercial use in June-July jumped about 7 percent from a year earlier on a milk equivalent, milkfat basis. The year-to-year comparisons overstate the expansion in dairy demand because these 2 months were relatively weak in 2004, when buyers limited purchases in a falling market. Even so, product movement has been brisk in recent months, supported by continued generally favorable economic conditions. June-July commercial use of cheese rose strongly, 10 percent from a year earlier for American cheeses and 6 percent for other cheeses. For the first 7 months of 2005, cheese use increased almost 3 percent. The June-July jump in butter disappearance was about 11 percent, although the year-to-date increase was only about 1 percent. Even ice cream and fluid milk, two categories that have been weak in recent years, posted increases during June-July. Were it not for the uncertainties caused by Hurricane Katrina, domestic dairy demand would be expected to stay solid. Recent economic indicators and projections had been mostly positive, and this year's dairy demand seems to have responded to economic improvement. The direct impact of the storm on dairy markets probably will be modest, and the losses of milk supply and dairy product sales might about offset. However, there probably will be a slowing of economic growth, a boost to the Federal deficit, and increases in energy and other marketing costs related to the storm. Hurricane effects are not projected to substantially alter dairy demand prospects--but considerable uncertainty will remain. Skim solids demand also was brisk during June-July. Domestic use was boosted by expanded cheese sales while exports of nonfat dry milk and various blends containing dry skim solids remained strong. Commercial use of nonfat dry milk jumped 14 percent from a year earlier. Skim solids demand is expected to stay strong through at least mid-2006, as export markets seem poised to absorb any supplies not used domestically. For the first time since the start of the dairy price support program in 1949, the current marketing year will end with no surplus of any product. In fact, net removals for the October-September year will be slightly negative on both milkfat and skim solids bases. The only price support purchases were small purchases of nonfat dry milk during the first 2 months of the marketing year, and there were no subsidized exports under the Dairy Export Incentive Program (DEIP). These purchases were easily outweighed by unrestricted sales of nonfat dry milk and a little cheese back to the industry.

International Dairy Markets Unchanged - International dairy markets have held strong. Nonfat dry milk prices barely slipped this summer under the influence of seasonally heavy Northern Hemisphere milk production. Asian import demand remained good, while higher oil prices improved prospects for imports by petroleum-producing countries and the states backed by them. Oceania milk production is projected to rise during the new season but powder will not be available for new sales for several months. International market prices are projected to stay relatively high through at least mid-2006. Growth in New Zealand output probably will not exceed the rise in demand since less is expected to be available from the EU-25 and the United States.

Continued strong conditions seem quite likely for milk and whey powders, and cheese prospects are thought to be good. More uncertainty surrounds butter prices because of the normal lack of predictable Russian demand. Exports of nonfat dry milk totaled over 400 million pounds during January-July, about double the relatively large year-earlier levels. Although some food aid exports were made, government activities played no role in about four-fifths of this year's exports. In addition, there were thought to be large exports of various blends with substantial skim solids content. Commercial cheese exports have been somewhat inhibited by continued tight domestic markets. Imports fell during the first 7 months of 2005 because of smaller high-tariff imports. Unlike the very high prices of 2004, this year's prices provided little incentive to import amounts in excess of the tariff-rate quotas (TRQ). The drop in butter imports by almost a half and a decline almost as large in American cheese imports were essentially due to smaller over-TRQ imports. Imports are expected to stay fairly modest during the rest of 2005.

Large Supplies To Weigh on Dairy Prices - Large increases in milk production are expected to keep the lid on wholesale dairy prices. Although robust demand has done a remarkable job of absorbing supplies thus far in 2005, any autumn seasonal price increases likely will be quite limited. Wholesale prices of butter and cheese are projected to decline significantly next winter. Prices of cheese on the Chicago Mercantile Exchange (CME) have been up and down throughout 2005. However, the highs of the price swings have gotten progressively lower, as the lows generally have. Seasonal factors may interrupt this pattern this autumn. Restaurant sales evidently have been robust, and the holiday sales could be good. Even so, expected large supplies and economic uncertainty should forestall much price increase. Another sizable downward adjustment in cheese prices is expected after holiday needs are met. Seasonal production increases and demand easing will be accompanied by large year-to-year increases in milk production. However, good demand is likely to keep the declines from being dramatic, at least if economic conditions do not deteriorate more than expected. Price prospects for butter are less settled. Prices on the CME during most of August and early September were the highest of the year except for very briefly just before the Fourth of July. However, average prices were a bit sluggish in adjusting to the CME prices, possibly because September normally sees a modest seasonal easing in the market balance before holiday demand for milkfat becomes dominant. Somewhat tight stocks and stronger-than-earlier-thought demand for total milkfat products might generate some seasonal price strength. But, very large supplies are expected to be key. Butter prices are likely to decrease significantly after the holidays. Prices of nonfat dry milk are expected to be driven by international market prices and are projected to be fairly steady through at least mid-2006. Some slippage is possible as Southern Hemisphere supplies become more available about yearend. However, only slight erosion of prices is seen. Farmers are expected to receive moderately less than a year earlier for their milk during the rest of 2005. For the year, the decline is expected to be slightly less than \$1 per cwt, a very modest dip from the record for a year posting a 3-percent jump in milk output. Robust domestic and international demand provided protection against potentially very large decreases. Values of milk for cheese and for joint production of butter and nonfat dry milk have been much closer than during most recent years. This pattern is expected to persist in 2006. Relatively strong demand for all of the three major products makes the difference. Large back-to-back increases in milk production are expected to overwhelm demand strength in 2006. Farm milk prices are projected to decline \$1 to \$2 per cwt. Even after the expected substantial decrease, milk prices would remain relatively high and considerably above the low levels of 2002 and much of 2003.

Retail Dairy Prices Steady - Retail prices of milk and dairy products have been fairly steady since early 2005, unlike a year earlier when prices soared during the spring before tailing off late in the year. Retail dairy prices are expected to remain relatively steady during the rest of 2005. Compared with 2004, May-July retail prices fell 3 percent after posting increases of as much as 6 percent early in the year. For all of 2005, retail prices are projected to average up 1 percent. The farm-to-retail price spread has grown moderately this year following two straight declines. The spread's widening slightly outweighed the decrease in farm milk prices. The opposite is projected for 2006, when declines in farm milk prices are expected to be very slightly larger than the growth in the spread.

SOURCE: "Livestock, Dairy, and Poultry Outlook", LDP-M-135, September 16, 2005, Economic Research Service, USDA. For more information, contact James J. Miller, (202) 694-5184. Note: text has been condensed from original.

CCC PURCHASES OF DAIRY PRODUCTS (POUNDS)

	FOR THE WEEK OF SEPTEMBER 19 - 23, 2005			CUMULATIVE TOTALS		UNCOMMITTED INVENTORIES	
	TOTAL PURCHASES	CONTRACT ADJUSTMENTS	ADJUSTED PURCHASES	SINCE 10/01/04	SAME PERIOD LAST YEAR	WEEK ENDING 09/16/05	SAME PERIOD LAST YEAR
BUTTER							
Bulk	-0-	-0-	-0-	-0-	-42,309	-0-	-0-
Packaged	-0-	-0-	-0-	-0-	-0-	-0-	-0-
TOTAL	-0-	-0-	-0-	-0-	-42,309	-0-	-0-
CHEESE							
Block	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Barrel	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Process	-0-	-0-	-0-	-0-	-0-	-0-	-0-
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-	-0-
NONFAT DRY MILK							
Nonfortified	-0-	-0-	-0-	31,817,269	357,203,150	-0-	575,951,000
Fortified	-0-	-0-	-0-	-0-	-119,048	-0-	46,391,000
TOTAL	-0-	-0-	-0-	31,817,269	357,084,102	-0-	622,342,000

MILK EQUIVALENT, FAT SOLIDS BASIS, OF ADJUSTED PURCHASES (MILLION POUNDS)

	MILKFAT* BASIS	SKIM** SOLIDS		MILKFAT* BASIS	SKIM** SOLIDS
WEEK OF SEPTEMBER 19 - 23, 2005 =	0.0	0.0	COMPARABLE PERIOD IN 2004 =	0.7	39.2
CUMULATIVE SINCE OCTOBER 1, 2004 =	7.0	370.4	CUMULATIVE SAME PERIOD LAST YEAR =	77.6	4,156.5
CUMULATIVE JAN. 1 - SEP. 23, 2005 =	0.0	0.0	COMPARABLE CALENDAR YEAR 2004 =	52.1	2,807.2

* Factors used for Fat Solids Basis - Butter times 21.80; Cheese times 9.23; and Nonfat Dry Milk times 0.22

**Factors used for Skim Solids Basis - Butter times 0.12; Cheese times 9.90; and Nonfat Dry Milk times 11.64

CCC ADJUSTED PURCHASES SINCE 10/1/04 AND SAME PERIOD LAST YEAR (POUNDS) AND MILK EQUIVALENT AS A PERCENT OF TOTAL

REGION	BUTTER		CHEESE		NONFAT DRY MILK		MILK EQUIVALENT (%)	
	2004/05	2003/04	2004/05	2003/04	2004/05	2003/04	2004/05	2003/04
CENTRAL	-0-	-0-	-0-	-0-	1,331,567	8,493,089	4.2	2.4
WEST	-0-	-42,309	-0-	-0-	29,415,099	344,307,239	92.4	96.4
EAST	-0-	-0-	-0-	-0-	1,070,603	4,283,774	3.4	1.2
TOTAL	-0-	-42,309	-0-	-0-	31,817,269	357,084,102	100.0	100.0

SUPPORT PURCHASE PRICES FOR DAIRY PRODUCTS PRODUCED ON OR AFTER NOVEMBER 15, 2002

MANUFACTURING MILK Average Test 3.67% - \$9.90 per cwt.

BUTTER Bulk \$1.0500 per pound; 1# Prints \$1.0850

CHEESE 40 & 60# Blocks \$1.1314 per pound; 500# Barrels \$1.1014; Process American 5# \$1.1889; Process Am. 2# \$1.2289

NONFAT DRY MILK Nonfortified \$.8000 per pound; Fortified \$.8100; Instant \$0.9625

U.S. Dairy & Total Cow Slaughter under Federal Inspection, by Regions, for Week Ending 09/03/05 & Comparable Week 2004

Regions* (000 HEAD)	1	2	3	4	5	6	7	8	9	10	U.S. TOTAL		% DAIRY OF ALL	
											WEEK	SINCE JAN 1	WEEK	SINCE JAN 1
2005-Dairy	N.A.	0.7	6.1	2.7	13.6	2.9	0.5	N.A.	14.4	1.5	43.3	1,515.7	48.4	47.3
2004-Dairy	N.A.	0.7	7.5	2.2	18.6	3.1	0.7	N.A.	13.1	2.0	49.0	1,609.8	48.0	46.7
2005-All cows	N.A.	0.7	7.7	11.8	26.0	13.6	8.7	N.A.	16.5	2.1	89.5	3,202.0		
2004-All cows	N.A.	0.8	9.1	12.4	29.1	15.2	12.0	N.A.	15.0	5.7	102.1	3,443.5		

SOURCE: The slaughter data are gathered and tabulated in a cooperative effort by the Agricultural Marketing Service, The Food Safety and Inspection Service, and the National Agricultural Statistics Service, all of USDA. 1/ States included in regions are as follows: Region 1--ME, NH, VT, CT, MA, and RI; Region 2--NY and NJ; Region 3--DE, PA, WV, VA, and MD; Region 4--KY, TN, NC, SC, GA, AL, MS, and FL; Region 5--MI, OH, IN, IL, WI, and MN; Region 6--TX, OK, NM, AR, and LA; Region 7--IA, NB, KS, and MO; Region 8--MT, WY, CO, UT, ND, and SD; Region 9--CA, NV, AZ, and HA; Region 10--ID, OR, and WA. 2/ Totals may not add due to rounding.

CLASS III MILK PRICES, (3.5% BF)

YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
2002	11.87	11.63	10.65	10.85	10.82	10.09	9.33	9.54	9.92	10.72	9.84	9.74
2003	9.78	9.66	9.11	9.41	9.71	9.75	11.78	13.80	14.30	14.39	13.47	11.87
2004	11.61	11.89	14.49	19.66	20.58	17.68	14.85	14.04	14.72	14.16	14.89	16.14

FEDERAL MILK ORDER CLASS PRICES FOR 2005 (3.5% BF)

CLASS	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
I 1/	16.65	13.79	15.43	14.13	14.80	13.62	13.89	14.44	13.70	14.27		
II	13.04	13.36	13.25	13.24	12.78	13.06	13.79	13.95				
III	14.14	14.70	14.08	14.61	13.77	13.92	14.35	13.60				
IV	12.52	12.74	12.66	12.61	12.20	12.33	13.17	13.44				

1/ Specific order differentials to be added to this base price are located at www.ams.usda.gov/dyfm05/mib/cls_prod_cmp_pr.htm